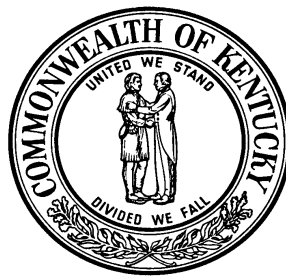


**REPORT OF THE AUDIT OF THE
PIKE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
PIKE COUNTY SHERIFF

For The Year Ended
December 31, 2010

The Auditor of Public Accounts has completed the Pike County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Pike County Sheriff had total receipts of \$2,276,686, which was a \$494,207 increase from the prior year. Except for reimbursed expenses in the amount of \$354,760 and fiscal court contributions of \$602,890 the sheriff paid 25% of receipts to the Pike County Fiscal Court in the amount of \$326,607. This was an increase of \$25,525 from the prior year. In addition, disbursements decreased by \$3,832.

Report Comments:

2010-01 The Sheriff's 75% Fund Had A \$41,841 Deficit Balance At Year End
2010-02 The Sheriff's Office Lacks An Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wayne T. Rutherford, Pike County Judge/Executive
Honorable Charles E. Keese, Pike County Sheriff
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Pike County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2010. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Wayne T. Rutherford, Pike County Judge/Executive
Honorable Charles E. Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2010-01 The Sheriff's 75% Fund Had A \$41,841 Deficit Balance At Year End

2010-02 The Sheriff's Office Lacks An Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Pike County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 23, 2011

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

Federal Grant:

U.S. Army Corps of Engineers	\$	30,443
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State Grants:

Kentucky Law Enforcement Foundation Program		44,354
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State Fees for Services:

Finance and Administration Cabinet	\$	140,239	
Sheriff's Security Service		35,451	
Telecommunications Franchise Commissions		8,365	
Return of Fugitives		12,853	196,908

Circuit Court Clerk

6,402

Fiscal Court

602,890

County Clerk

120,289

Commission on Taxes

981,269

Fees Collected for Services:

Auto Inspections	13,682	
Accident and Police Reports	425	
Serving Papers	95,496	
Refund	104	
Carrying Concealed Deadly Weapon Permits	13,324	
Sheriff's Add-on Fee	89,143	212,174

Other Revenues:

Transporting Mental Patients	18,161	
Reimbursements	7,350	
Forfeiture Funds	40,000	
Sequestered Jurors	545	
Interest Earned	519	
Miscellaneous	15,382	81,957

Total Revenues

2,276,686

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 CHARLES E. KEESEE, SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures

Payments to County:

Restitution	\$	3,276	
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Other Expenditures:

Jury Expense	\$	509	
Miscellaneous		114	623

Total Expenditures			\$ 3,899
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Net Revenues			2,272,787
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Payments to State Treasurer:

75% Operating Fund		1,946,005 *	
25% County Fund		326,607	2,272,612

Balance Due at Completion of Audit			\$ 175
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* Includes reimbursed expenses of \$354,730 and fiscal court contributions of \$602,890.

PIKE COUNTY
 CHARLES E. KEESEE, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2010

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2010	\$ (407,035)	\$	\$ (407,035)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,946,005		1,946,005
Fees Paid to State - County Funds (25%)		326,607	326,607
Total Funds Available	1,538,970	326,607	1,865,577
<u>Expenditures</u>			
Payments to the Fiscal Court		326,607	326,607
Officials Statutory Maximum	95,256		95,256
Personnel Services-			
Deputies' Salaries	766,423		766,423
Employee Benefits-			
Employer's Share Social Security	63,055		63,055
Employer's Share Retirement	140,268		140,268
Employer's Paid Health Insurance	322,201		322,201
Other Payroll Disbursements	4,853		4,853
Operating Expenses	188,755		188,755
Total Expenditures	1,580,811	326,607	1,907,418
Fund Balance - December 31, 2010	\$ (41,841)	\$ 0	\$ (41,841)

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

PIKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6.0 percent of their salary plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Pike County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Pike County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

PIKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010
(Continued)

Note 4. Forfeiture Account

The Pike County Sheriff maintains an official bank account for monies obtained from seizures, sales of property used in illegal drug activities, and the fiscal court. The purpose of this fund is for undercover operations dealing with illegal drugs. The beginning balance as of January 1, 2010 was \$54. During calendar year 2010, funds of \$62,546 were received and \$56,620 was expended, leaving a balance of \$5,980 as of December 31, 2010.

Note 5. Federal Grant

The Sheriff's office received a grant through the United States Army Corps of Engineers for lake patrol throughout the year. The amount received during 2010 was \$30,443.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wayne T. Rutherford, Pike County Judge/Executive
The Honorable Charles E. Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Pike County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated May 23, 2011. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2010-02 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pike County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-01.

The Pike County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Pike County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 23, 2011

COMMENTS AND RECOMMENDATIONS

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The Sheriff's 75% Fund Had A \$41,841 Deficit Balance At Year End

The Sheriff's 75% operating fund had a deficit balance of \$41,841 as of December 31, 2010. KRS 64.345(4) states, "If seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his term." The 75% operating fund has to be settled at the end of the Sheriff's term, which ended December 31, 2010. We recommend the Sheriff monitor his operating account's receipts and disbursements to ensure that no deficit occurs.

Sheriff's Response: This is not actually a deficit. The county receives 25% of all revenue generated from the Sheriff's Office. Due to office expenses, I must receive back some of the 25% in order to operate the office. The total amount received by the Fiscal Court over my 4 year term was \$1,245,791; out of this they paid \$1,209,369 back, so they actually made \$36,422 from the Sheriff's Office for this term.

Auditor's Reply: The Pike County Sheriff's Office operates with two funds, the 75% fund and the 25% fund. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts. The Sheriff's 75% fund ended the term in a deficit of \$41,841 as of December 31, 2010, therefore requiring the fiscal court to contribute an additional \$41,841 to eliminate this deficit. The Sheriff's response above, makes reference to all fees handled by the Sheriff's Office.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-02 The Sheriff's Office Lacks An Adequate Segregation Of Duties

During our audit, we noted that Sheriff's internal control structure lacks an adequate segregation of duties. The Sheriff's bookkeeper completes all daily deposits, records all receipts and disbursements, completes all financial reporting and reconciles bank statements. The current design in the internal control structure does not reduce the level of risk that errors or material misstatements of the financial statement may occur and not be detected.

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2010-02 The Sheriff's Office Lacks An Adequate Segregation Of Duties (Continued)

We recommend the Sheriff segregate these duties or implement the following compensating controls:

- The Sheriff should compare monthly reports to the receipts and disbursements ledgers. The Sheriff should document this by initialing the monthly reports.
- The Sheriff could receive unopened bank statements and review prior bank reconciliations.
- The Sheriff could review monthly bank reconciliations prepared by bookkeeper.
- The Sheriff should require dual signatures on checks with one being the Sheriff's.
- The Sheriff could distribute payroll checks to the employees. Also, each employee could sign a payroll distribution list and the Sheriff could approve this when the payroll is distributed.
- The Sheriff should examine and approve expenditure payments prepared by another employee for proper documentation and the periodically mail disbursements checks.
- Employees could be cross-trained to perform duties.

Sheriff's Response: Will attempt to correct.

